



WASHINGTON STATE
Department of Retirement Systems **2011**

Summary Annual Financial Report
Funds of the State of Washington for the Year Ended June 30, 2011



Message From the Director

This last year, the number of retirements continued a steady trend upward, while our resources became even leaner. A significant challenge, but it's one we have been preparing for some time to meet.

One way to do so is to ensure our priorities are aligned with those that are of the highest value to our more than 400,000 customers. How do you know if your customers are fully satisfied with your services? You ask.

In 2011 we asked a representative group of customers about a key DRS product – the benefit estimates we produce for those nearing retirement. Then we asked our team members for ideas on how to most effectively deliver on what customers said they needed, following the Lean principles that have seen resounding success in state government and private sector companies. Over the coming year, we will complete that work and put ideas into action.

On a simultaneous track, we made operational changes that included simplifying our online services and encouraging more use of our Web resources, which can be updated quickly and cost less than paper. As a result, we saw a rise in the number of people registering for online access to their retirement accounts.

We also continued work on building an online application for retirement, which will be launched in early 2012. Given the eight distinctly different retirement systems we administer, an online application is an intensive undertaking, but once complete, it will make the retirement process easier for many of our customers and offer an additional option for others.

This coordinated approach led to CEM Inc., an international firm that benchmarks the performance of public pension plans, finding once again that even though Washington's plans are among the most complex in the country to administer, our administrative cost is significantly lower than what would be expected.

It's an affirmation that is especially meaningful because we are able to achieve this cost-effectiveness while providing a high level of customer care. Customers who call or visit DRS talk with a knowledgeable team member who considers it a privilege to help ensure they receive the retirement benefits earned during a career in public service.

We take pride in our solid record of success, but no high-performing organization is ever content with being good at what they do. We are asking ourselves and our customers the questions that will lead to continuous improvement. We're good, but we strive to be *great*.

In the following pages, we offer our annual financial report for your review.

Sincerely,

Steven R. Hill
Director
November 2011



We're good,
but we strive to be *great*.

Membership by system and plan as of June 30, 2011*



*Source for membership by system and plan is the State Actuary's latest valuation report, published June 30, 2010.

Membership

The State of Washington provides secure retirement plans for public employees. The Department of Retirement Systems manages eight unique pension systems serving more than 479,000 current, past and retired employees from state and local government, K-12 and higher education systems, fire, law enforcement and judicial agencies.

Active members, who are currently employed and paying contributions toward retirement, comprise 62 percent of the public pension participation. Remaining members are either retired or have separated from service.



The Washington State Investment Board (WSIB) manages retirement fund assets with the statutory requirement to maximize investment returns at a prudent level of risk. The retirement Commingled Trust Fund (CTF) increased by \$9.6 billion during Fiscal Year 2011 to \$62.3 billion. The CTF return was 21.1 percent for the fiscal year.

The table below shows the returns for the CTF on a total fund basis and by asset class:

CTF Investment Returns (as of June 30, 2011)

Asset Class	Liquidity	Innovation	Private Equity	Public Equity	Real Estate	Tangible	Fixed Income	Total Fund
1 Year	0.18%	-15.02%	24.33%	31.00%	14.39%	6.61%	7.48%	21.14%
3 Year	0.56	n/a	2.10	1.36	-6.52	2.13	8.65	1.90
5 Year	2.21	n/a	7.17	3.20	2.42	n/a	8.17	4.86

Investment performance is a result of two primary factors: individual asset selection and the allocation of the portfolio among asset classes (e.g. stocks, fixed income, real estate).

Accordingly, the WSIB sets a specific long-term target asset mix and adopts tight ranges around those targets to control the overall risk and return of the CTF. On a daily basis, the board reviews the asset allocation in relation to the established ranges. The staff shifts assets whenever the allocation range for an asset exceeds the approved range or when cash is needed elsewhere. The board reviews changes to the overall asset mix every three to four years.

Current Asset Allocation & Target Allocations (as of June 30, 2011)

	Fixed Income	Tangible Assets	Real Estate	Global Equity	Private Equity	Innovation	Liquidity
Actual	19.55%	1.15%	13.77%	36.83%	25.09%	2.04%	1.57%
Target	20.00%	5.00%	13.00%	37.00%	25.00%	0.00%	0.00%



Investment Summary

The return on the Commingled Trust Fund (CTF) was 21.1 percent for the fiscal year.

Over the course of the past fiscal year, the WSIB restructured the public equity program within the CTF into four components: passive U.S. equity, passive non-U.S. equity, active global equity, and active emerging markets equity.

Ten Largest Public Equity Holdings (as of June 30, 2011)

Holding	% of Global Equity Index
Exxon Mobil Corp	1.02%
Apple Inc.	0.81%
BHP Billiton LTD	0.61%
Microsoft Corp	0.59%
Royal Dutch Shell PLC	0.58%
Pfizer Inc.	0.56%
IBM Corp.	0.55%
Vodafone Group PLC	0.52%
GlaxoSmithKline PLC	0.52%
Russian Federation	0.50%

Statement of Plan Net Assets: Pension & other employee benefit assets by plan (as of June 30, 2011, expressed in thousands)*

Financial Statement

Pension Assets Totals																	TOTALS	
Assets	PERS Plan 1	PERS Plan 2/3	PERS Plan 3	SERS Plan 2/3	SERS Plan 3 Defined Contribution	PSERS Plan 2	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	Judges	JRA Defined Contribution	Deferred Compensation	June 30, 2011	June 30, 2010
Cash and Pooled Investments	\$3,111	\$4,119	\$207	\$3,054	\$1,097	\$343	\$3,041	\$4,384	\$4,496	\$1,451	\$1,111	\$590	\$215	\$2,336	\$8	\$4,863	\$34,426	\$32,759
Total Receivables	\$234,988	\$600,602	\$31,933	\$84,043	\$31,372	\$5,762	\$197,588	\$211,262	\$106,552	\$146,008	\$193,748	\$25,555	\$5	\$2	\$4	\$1,493	\$1,870,917	\$2,081,456
Total Investments, Noncurrent	\$8,558,749	\$20,990,170	\$1,732,643	\$2,863,475	\$1,309,859	\$147,313	\$7,224,864	\$7,132,380	\$5,148,653	\$5,425,042	\$6,643,428	\$935,533	\$4,874	–	\$13,016	\$2,937,365	\$71,067,364	\$61,280,185
Other Assets	\$476	\$335	–	\$15	–	–	\$413	\$123	–	\$225	\$56	\$27	–	–	–	–	\$1,670	\$1,848
Total Assets	\$8,797,324	\$21,595,226	\$1,764,783	\$2,950,587	\$1,342,328	\$153,418	\$7,425,906	\$7,348,149	\$5,259,701	\$5,572,726	\$6,838,343	\$961,705	\$5,094	\$2,338	\$13,028	\$2,943,721	\$72,974,377	\$63,396,248
Total Liabilities	\$616,843	\$1,496,590	\$75,431	\$204,131	\$72,886	\$10,344	\$521,589	\$508,246	\$227,329	\$386,773	\$472,260	\$66,806	\$33	\$3	\$1	\$3,282	\$4,662,547	\$5,766,110
Net Assets Held in Trust for Pension and Other Benefits	\$8,180,481	\$20,098,636	\$1,689,352	\$2,746,456	\$1,269,442	\$143,074	\$6,904,317	\$6,839,903	\$5,032,372	\$5,185,953	\$6,366,083	\$894,899	\$5,061	\$2,335	\$13,027	\$2,940,439	\$68,311,830	\$57,630,138

*This is a summary of the Comprehensive Annual Financial Report (CAFR), which is presented consistent with generally accepted accounting principles (GAAP). The CAFR is available on our website at www.drs.wa.gov or can be obtained by calling us toll free at 800-547-6657. As with the CAFR, the pension trust funds in this summary are presented using the flow of economic resources measurement focus and the accrual basis of accounting. However, this presentation differs from GAAP in the following respects: only selected financial data rather than financial statements are included, and this report only contains abbreviated note disclosures. The Summary Annual Financial Report represents an accounting of the annual liabilities and required contributions, using methods set by the Governmental Accounting Standards Board. The Valuation (or Funding) Report issued by the State Actuary uses actuarial assumptions and methods prescribed by the Legislature to calculate the contributions that will be required, under existing funding policy, over the life of the plans.

Additions to pension plan net assets

The primary sources of additions to the retirement trust funds include contributions from employers, active system members and the state, and from investment earnings. Additions to the deferred compensation trust fund include participant contributions and investment earnings.

The totals are listed to the right (expressed in millions).

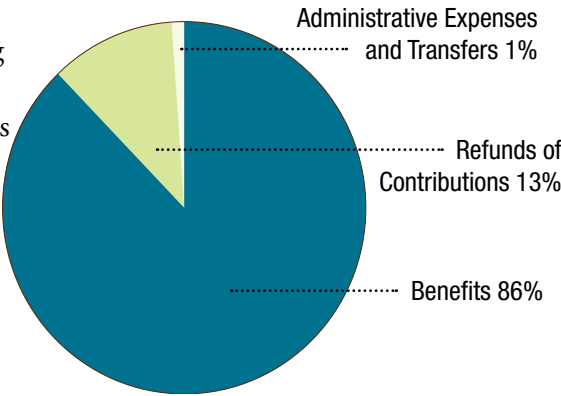
Additions	Fiscal Year 2011	Fiscal Year 2010
Retirement Contributions	\$1,923.9	\$1,923.5
Deferred Compensation Participant Contributions	\$186.7	\$185.1
Net Investment Income*	\$11,913.4	\$6,639.5
Charges for Services	\$28.0	\$28.1
Other Additions	\$28.7	\$35.5
Total	\$14,080.7	\$8,811.7

*These figures do not include securities lending income.

Deductions to pension plan net assets

The retirement systems’ primary fund deductions (excluding transfers) include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members and the cost of administering the retirement systems.

Benefit payments to members, including pension and annuity benefits, totaled \$2,926.4 million for Fiscal Year 2011. Refunds totaled \$431.0 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$28.6 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.



Summary of Plan Provisions

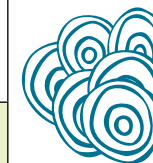
Plan	Membership Eligibility	Vesting	Retirement Eligibility	Benefit
PERS Plan 1 (By 9/30/77)	State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, classified employees of school districts, district/municipal court judges, and some employees of the Supreme, Appeals, and Superior Courts	After five years of eligible service	After 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service	2% of average final compensation (AFC) per year of service, capped at 60% of AFC Judicial Benefit Multiplier (JBM) participants: 3.5% of AFC per year of service, capped at 75% of AFC
PERS Plan 2 (On or after 10/1/77)	Same as PERS Plan 1, except classified school district employees; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service JBM participants: 3.5% of AFC per year of service, capped at 75% of AFC
PERS Plan 3 (Varies by employer)	Same as PERS Plan 2; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)*	1% of AFC per year of service (defined benefit portion)* JBM participants: 1.6% of AFC per year of service, capped at 37.5% of AFC
SERS Plan 2 (By 8/31/00)	All classified employees of school or educational service districts. Also includes individuals first hired on or after July 1, 2007 with no past PERS Plan 2 service who chose Plan 2 within the 90 day window.	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
SERS Plan 3 (On or after 9/1/00)	All classified employees of school or educational service districts. Also includes individuals first hired on or after July 1, 2007 with no past PERS Plan 2 service who chose Plan 3 within the 90 day window.	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)*	1% of AFC per year of service (defined benefit portion)*
PSERS Plan 2 (On or after 7/1/06)	All full-time public safety officers at select state agencies, counties and cities, except Seattle, Spokane and Tacoma	After five years of eligible service	At age 65 with five years of service, at age 60 with 10 years of PSERS service, or at age 53 with 20 years of service (reduced 3% for each year under age 60)	2% of AFC per year of service
TRS Plan 1 (By 9/30/77)	All certificated public school employees who work in an instructional, administrative or supervisory capacity	After five years of eligible service	Any age with 30 years of service, or at age 60 with five years of service, or at age 55 with 25 years of service	2% of AFC per year of service, capped at 60% of monthly AFC JBM participants: 3.5% of AFC per year of service, capped at 75% of monthly AFC
TRS Plan 2** (On or after 10/1/77 and by 6/30/96)	All certificated public school employees who work in an instructional, administrative or supervisory capacity	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
TRS Plan 3** (On or after 7/1/96 and by 6/30/07)	All certificated public school employees who work in an instructional, administrative or supervisory capacity	Varies	At age 65 if vested, or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)*	1% of AFC per year of service (defined benefit portion)*
LEOFF Plan 1 (By 9/30/77)	All full-time, fully compensated law enforcement officers and fire fighters	After five years of eligible service	At age 50 with five years of service	20 years of service = 2% of final average salary (FAS) per year of service; 10-19 years of service = 1.5% of FAS per year of service; 5-9 years of service = 1% of FAS per year of service
LEOFF Plan 2 (On or after 10/1/77)	All full-time, fully compensated law enforcement officers and fire fighters and (as of 7/24/05) emergency medical technicians	After five years of eligible service	At age 53 with five years of service or a benefit at age 50 with 20 years service reduced 3% for each year under age 53	2% of FAS per year of service
WSPRS Plan 1 (On or after 8/1/47 and by 12/31/02)	Commissioned employees of the Washington State Patrol	No requirement for active members; after five years of eligible service for inactive members	At age 55 or after 25 years of service	2% of average final salary (AFS) per year of service, capped at 75% of AFS
WSPRS Plan 2 (On or after 1/1/03)	Commissioned employees of the Washington State Patrol	No requirement for active members; after five years of eligible service for inactive members	At age 55 or after 25 years of service	2% of AFS per year of service, capped at 75% of AFS
JRS (On or after 8/9/71 and by 6/30/88 - New judges on or after 7/1/88 join PERS Plan 2 or 3)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts	After 15 years of service	At age 60	15 years of service = 3.5% of FAS per year of service, capped at 75% of FAS 10-14 years of service = 3% of FAS per year of service, capped at 75% of FAS
Judges (By 8/8/71)	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts	After 12 years of service	At age 70 with 10 years of service or any age with 18 years of service	1/2 of monthly salary

* PERS, SERS and TRS Plan 3 are defined benefit plans with a defined contribution component. Employers contribute to the defined benefit portion of the plan. Employees determine their own contributions. The defined contribution portion of the benefit depends on the member's contribution level and on investment performance. DRS publishes handbooks describing the rights and benefits for each system and plan, including disability and survivor benefits. These handbooks are provided to members by their employers. They are also available on the DRS website. For more information, contact DRS at 800-547-6657. To receive this publication in an alternative format, call 360-664-7097.

** New employees hired on or after 7/1/07 choose TRS Plan 2 or TRS Plan 3.

Pension System Roles and Responsibilities

Organization	Responsibility	Membership and Contact Information
Department of Retirement Systems (DRS)	Collects and accounts for employer and employee contributions; maintains retirement records; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation Program.	The governor appoints the director of DRS. PO Box 48380, Olympia, WA 98504-8380 Tel: 360-664-7000 or toll-free 800-547-6657 • www.drs.wa.gov
Legislative fiscal committees	Review and report on retirement bills to the full Legislature.	The legislative fiscal committees are the House Ways and Means Committee and the Senate Ways and Means Committee. House Ways and Means Committee PO Box 40600, Olympia, WA 98504-0600 Tel: 360-786-7155 or toll-free 800-562-6000 (Legislative Hotline) • www.leg.wa.gov Senate Ways and Means Committee PO Box 40482, Olympia, WA 98504-0482 Tel: 360-786-7715 or toll-free 800-562-6000 (Legislative Hotline) • www.leg.wa.gov
Select Committee on Pension Policy (SCPP)	Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.	Composed of four active retirement system member representatives, two retiree representatives, four employer representatives, eight state legislators and the directors of the Department of Retirement Systems and the Office of Financial Management. Contact through the Office of the State Actuary: PO Box 40914, Olympia, WA 98504-0914 Tel: 360-786-6140 • www.leg.wa.gov/scpp
Pension Funding Council (PFC)	Adopts economic assumptions for pension funding and member and employer pension contribution rates for PERS, SERS, TRS, PSERS, LEOFF Plan 1 and WSPRS.	Membership consists of the directors of DRS and Office of Financial Management, and the chairs and ranking minority members of the Senate Ways and Means Committee and the House Ways and Means Committee. Contact through DRS.
Office of Financial Management (OFM)	Advises the governor on pension and funding policies and issues.	The governor appoints the director of OFM. PO Box 43113, Olympia, WA 98504-3113 Tel: 360-902-0555 • www.ofm.wa.gov
Washington State Investment Board (WSIB)	Invests and accounts for pension funds.	Membership consists of the director of DRS; the state treasurer; the director of the Department of Labor and Industries; a state senator; a state representative; an active member of PERS, SERS, LEOFF, and TRS; and a retired member of one of the seven retirement systems. PO Box 40916, Olympia, WA 98504-0916 Tel: 360-956-4600 • www.sib.wa.gov
Office of the State Actuary (OSA)	Acts as an advisory agency to the Legislature and to the director of DRS. Performs actuarial studies and reports on retirement bills. Creates formulas used to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor benefits.	The state actuary is appointed by the Select Committee on Pension Policy. PO Box 40914, Olympia, WA 98504-0914 Tel: 360-786-6140 • www.osa.leg.wa.gov
DRS Advisory Committee	Serves in an advisory role to the director of DRS on retirement administrative issues.	Members represent active and retired members of the retirement systems administered by DRS.
LEOFF Plan 2 Retirement Board	Policy-making board that studies pension issues, acts as fiduciary of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members.	Membership consists of representatives from the Legislature, law enforcement, fire fighters and employers. PO Box 40918, Olympia, WA 98504-0918 Tel: 360-586-2320 • www.leoff.wa.gov



*It is a privilege to work
with you throughout your
career and retirement.*